

DEPARTMENT OF TRANSPORTATION

OFFICE OF THE DIRECTOR
P.O. Box 942873, MS-49
SACRAMENTO, CA 94273-0001
PHONE (916) 654-5266
FAX (916) 654-6608
TTY 711



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December 24, 2009

Dale E. Bonner
Secretary
Business, Transportation and Housing Agency
980 9th Street, Suite 2450
Sacramento, CA 95814

Dear Secretary Bonner:

In accordance with the Financial Integrity and State Managers Accountability Act of 1983, Government Code sections 13400 through 13407, I am submitting the attached Biennial Internal Control Report describing the review of our systems of internal control for the biennial period ended December 31, 2009.

As detailed in the attached report's conclusion, it is the California Department of Transportation's (Caltrans) management's opinion that Caltrans' controls for the risk areas identified in the attached Biennial Internal Control Report, that was in effect as of December 31, 2009, are adequate, except for controls over expendable and non-expendable equipment. The equipment controls were inadequate, because physical inventory practices were not performed by all and property records were not completely maintained or reconciled.

Also, as statutorily required, Caltrans is in compliance with Government Code section 12439, which requires departments to fill any vacant position within a six-month period or lose the position. Caltrans' compliance includes strengthening its position on management controls and processes by implementing the Position Tracking Automated System, as well as providing ongoing training to district budget and personnel representatives and district program managers on the guidelines and processes surrounding position management and budgets. An October 30, 2009, internal audit of Caltrans' position control processes

disclosed that, in general, Caltrans' position control processes and procedures were adequate and provided timely and accurate position information.

Sincerely,

Original Signed By

RANDELL H. IWASAKI
Director

Attachments:

- (1) Biennial Internal Control Report
- (2) Completed Internal Assignment Matrix

c: Arnold Schwarzenegger, Governor
Michael C. Genest, Director, Department of Finance
Elaine M. Howle, State Auditor, Bureau of State Audits
Stacey Aldrich, State Librarian, California State Library
Joint Legislative Audit Committee

FISMA REPORT

BUSINESS, TRANSPORTATION AND HOUSING AGENCY DEPARTMENT OF TRANSPORTATION ORGANIZATION CODE: 2660

INTRODUCTION:

In accordance with the Financial Integrity and State Managers Accountability Act of 1983 (FISMA), the California Department of Transportation (Caltrans) submits this report on the review of its systems of internal control for the biennial period ended December 31, 2009.

The report is prepared within the format provided by the Department of Finance, Office of State Audits and Evaluations. As such, the following will cover Caltrans' Background, compliance with Vacant Position requirements, Risk Assessment, the Evaluation of Risks and Controls, Conclusion, and an attachment of Caltrans' Audits and Investigations (A&I) Completed Internal Assignments that provide a status of the various findings and correctional status.

Should you have any questions, please contact Gerald A. Long, Deputy Director, Audits and Investigations, at (916) 323-7122 or Gerald.Long@dot.ca.gov.

BACKGROUND:

Caltrans is responsible for more than 50,643 lane miles of highways and freeways, provides rail passenger services under contract with Amtrak, and provides technical assistance and loans to more than 100 of California's general aviation airports. Caltrans also administers a substantial local assistance program for cities, counties, and transit operators.

As such, Caltrans' mission is to improve mobility across California. To achieve its goals for safety, mobility, delivery, stewardship, and service, Caltrans has set the following objectives: reduce fatalities on California's highways; ensure there are no work-related fatalities at Caltrans; reduce Caltrans' work-related injuries and illnesses; reduce vehicle delays; increase predictability and reliability of travel time; reduce congestion; reduce the cost to deliver highway projects; deliver highway projects on time; ensure that completed projects achieve their originally intended purpose and need; minimize project cost overruns; improve project cost estimates; improve highway pavement conditions; ensure that Caltrans is allocating its financial resources efficiently and effectively; improve the maintenance of highway guardrails and striping; reduce litter; ensure that highway projects meet their environmental commitments; effectively manage Caltrans' inventory of properties; address critical deficiencies in Caltrans' facilities; improve timeliness and responsiveness to customers; ensure customers are satisfied; promote good communication and innovation at Caltrans; ensure staff is equipped with the tools and training needed to work effectively; retain high-quality staff; and attract first-choice job candidates to Caltrans.

VACANT POSITIONS:

Caltrans is in compliance with Government Code section 12439, which requires departments to fill any vacant position within six months or lose the position. Caltrans has strengthened its position management controls and processes by implementing the Position Tracking Automated System; and by providing ongoing training to district budget and personnel representatives, as well as district and program managers, on the guidelines and processes surrounding position management and budgets. On October 30, 2009, an internal audit of Caltrans' position control processes disclosed that, in general, position control processes and procedures were adequate, and provided timely and accurate position information.

RISK ASSESSMENT:

The risk assessment was developed through summarizing risk areas on a matrix and factoring in directorate and program management concerns and feedback; fiduciary responsibilities; compliance requirements; other mandates; historical knowledge from prior completed audits; and materiality. Through a weighted evaluation and professional judgment, a priority risk list was developed.

Caltrans management has identified the items enumerated below as the issues of top concern:

1. Public and Worker Safety
2. Proposition 1B Program
3. American Recovery and Reinvestment Act of 2009 (ARRA) Program
4. Departmental Contracts and Management Oversight
5. Lack of Committed Transportation Revenue/Funding
6. Departmental Succession Planning
7. Expendable and Non-expendable Fixed Assets
8. CAL-Card
9. Home Storage Permits

Caltrans' A&I's Plan for the Two-Year Cycle:

A&I focused its limited audit resources on areas identified as a priority risk and mandated audits that it is required to fulfill for control agencies (e.g. Federal Highway Administration (FHWA), State Controller's Office (SCO), Department of General Services, etc.). In addition, the risk assessment factored in the results of the audit assessments of the traditional FISMA accounting and reporting transaction cycles and information security completed by Caltrans in the prior two-year FISMA cycles. To assess the identified risk areas, A&I considered Caltrans' mission and strategic plan, goals, and objectives, and conducted surveys of Caltrans' programs, districts, and divisions. Data was gathered to assess the existing controls, impact, and sensitivity of the various areas to Caltrans' roles and responsibilities. Areas of internal and regulatory concerns were discussed with the respective Deputy Directors, who are responsible for the various programs, to arrive at a common understanding of the level of audit coverage.

Based on Caltrans management's concerns and A&I's audit judgment, the following areas were identified as risks and audits were planned and/or performed during this two-year cycle:

Internal Audits for Proposition 1B (Prop 1B) and ARRA

- A. Local Assistance Program
- B. Project Delivery
- C. Traffic Operations Program
- D. Transportation Planning Program
- E. Division of Rail
- F. Division of Programming (Audit in Process)
- G. Division of Mass Transportation (Audit in Process)

External Audits of Contracts

Internal Audits of Fixed Assets

Internal Audits of CAL-Card

Internal Audit of Home Storage Permits

In addition, A&I performed a risk assessment of findings reported in the prior traditional FISMA accounting and reporting transaction cycles. Fixed Assets were identified as a high risk area due to the significance of prior audit findings. As a result, A&I conducted a separate audit to determine the adequacy of internal controls for this reporting period. A&I also performed follow-up reviews to determine if corrective action had been taken on other lower risk prior FISMA audit findings.

Since a major portion of the \$13 billion annual budget for Caltrans was contracted out and passed through, A&I's External Audit Office focused its resources on audits of private-for-profit entities, local government entities, and universities which received funds either through Caltrans' contracts (direct funding) or through Caltrans' Agreements and Grants (pass-through funding). The types of audit engagements included Cognizant Agency, Pre-Award, Incurred Cost, Indirect Cost Allocation Plan, Proposition 1B Bond, and ARRA. With the exception of Prop 1B and ARRA funded audits, A&I's External Audit Office was funded primarily by service level agreements with various Caltrans' programs. Based upon historical audit history, A&I's External Audit Office identified the potential audit risks to the respective programs. The acceptable audit risk levels were determined by various Caltrans' programs and funding was provided, accordingly. As a result of these audits, the estimated external cost reductions to Caltrans were \$45.9 million for Fiscal Year (FY) 2007/08 and \$65.5 million for FY 2008/09.

Attachment A illustrates internal audit assignments performed for the biennial period ended December 31, 2009, and the status of findings determined to be a risk by management.

EVALUATION OF RISKS AND CONTROLS:

A&I's assessment of each risk area and plans for addressing the risks are identified below:

Risk 1: Public and Worker Safety (Safety)

Providing the safest transportation system in the nation for users and workers, Safety, is Caltrans' top priority, with a focus on the safety of the user, the traveling public; and those who work on the system, Caltrans' employees and contractors.

Over the past several years, Caltrans has had many focused efforts to address the issue of Safety. In 1999, Caltrans began a Statewide public awareness campaign called "Slow for the Cone Zone" to educate motorists to drive more safely in highway work zones. Since then, highway work zone incidents have fallen 35 percent in California, while increasing 43 percent in 49 other states. In addition, the "Safe Routes to School" program was established by the California Legislature to encourage students to walk or bike to campus. Caltrans has awarded \$243.5 million to California cities and counties to fund "Safe Routes to School" projects. Caltrans has also completed other safety campaigns and safety activities, such as installing signs at roadside rest areas throughout the State urging motorists to report drunk drivers by calling 911; hosting the "emergency response" joint conference with the California Highway Patrol; developing a strategic highway safety plan; posting Amber Alert information on more than 580 electronic freeway message signs Statewide; retrofitting 99.8 percent of all State-owned bridges and six of seven State-owned toll bridges by the end of March 2008; and keeping State roadways safe during winter storms.

Risk 2: Prop 1B Program

Prop 1B includes \$19.925 billion of safety improvements and repairs to State highways, upgrades to freeways to reduce congestion, repairs to local streets and roads, improvements to the seismic safety of local bridges, expansion of public transit, reduction of air pollution, and improvements to anti-terrorism security at the ports. Caltrans' vulnerabilities lie with the operational abilities of the programs receiving the largest amount of funding; and the increased transparency accountability and reporting requirements of Prop 1B.

Caltrans addressed the risk by establishing a Prop 1B Program Manager position within its executive management. Programs receiving Prop 1B funding also established and staffed separate offices for managing Prop 1B projects. Although Caltrans received additional positions to administer Prop 1B, the positions were only authorized for a limited period, three years, which poses additional risks in being able to maintain the needed knowledge and experience in administering the program. Caltrans has attempted to minimize the program risks by having A&I review each Prop 1B recipient program to assess the current infrastructure controls to enable new processes and procedures to be established, where needed, to handle Prop 1B requirements. In addition, to address the additional audit requirements under Prop 1B, Caltrans contracted with the SCO for the audits of departmental and local agency Prop 1B projects.

Control Weaknesses Identified Under Prop 1B Program Audits:

A) Inadequate Project Monitoring over Local Agencies

The Local Assistance Program (LAP) needs to improve its oversight of locally administered projects to ensure that State and federal requirements are met. Currently, LAP uses a delegated process to oversee local agency performance. During the life of a project, LAP performs project monitoring by having local agencies self-certify their full compliance with applicable State and federal regulations. This process poses various weaknesses, including potential conflict of interest, noncompliance with existing procedures and requirements, and information on Prop 1B reporting not being validated.

Caltrans is responsible and accountable to FHWA for locally administered federal-aid projects, including delegated activities. Inadequate interim and post monitoring of local agencies is a high risk to Caltrans, that can lead to projects becoming federally ineligible, and therefore, subject to repayment of ineligible costs to FHWA.

Corrective Actions:

Caltrans is currently preparing a corrective action plan to address the issue.

B) Division of Construction's (Construction) Capital Outlay Support Costs (COS) Are Not Always Accurate

Construction's COS costs are not always accurately reflected in total project costs. The charges were not always corrected; and in the cases where the charges were corrected, the corrections were made untimely.

When charges are not recorded to the correct phase of a project and mistakes are not corrected timely, it becomes difficult to:

- Accurately report and forecast results.
- Develop standardized reports providing accurate comparisons.
- Monitor performance in meeting commitments.

Corrective Actions:

Caltrans is currently preparing a corrective action plan to address the issue.

C) Inadequate Support for Requests for Reimbursement

Caltrans' Division of Transportation Planning (DOTP) is responsible for monitoring the regional transportation planning process through an Overall Work Program (OWP) and Regional Transportation Plan (RTP) developed annually by local Metropolitan Planning Organizations (MPOs) and Regional Transportation Planning Agencies (RTPAs). The OWP is a scope of work for transportation planning activities, including estimated costs, funding sources, and completion schedules.

We found that Caltrans' staff were not requesting supporting documentation for the reimbursement requests received from the MPOs and RTPAs; deliverables were not

verified as part of the monitoring process; there were not always Indirect Cost Rate Proposals on file, so indirect labor costs could not be supported; and quarterly progress reports were not always received by the district.

Without adequate monitoring and supporting documents, the local agencies could be reimbursed for unallowable or improper costs.

Corrective Actions:

Caltrans' DOTP is working to address the issue. Actions taken include conducting district training sessions to provide an overview of the documents that should be kept on file; the quarterly reporting process; step-by-step instructions on the invoicing process; oversight of RTPs, audits and grant management. In addition, all staff involved in the process will be reminded of their primary responsibilities in writing and will be advised of what constitutes sufficient supporting documentation when local agencies request reimbursement for costs incurred.

D) Improvements Needed in Oversight of Traffic Light Synchronization Program (TLSP)

Improvement is needed in the oversight and documentation of performance measures in TLSP to ensure that program objectives are met, and that individual projects remain within their identified scope and cost, and are delivered within the specified timeframe.

Corrective Actions:

Caltrans' Division of Traffic Operations has developed a work plan to address the issues identified and is actively working to ensure processes are in place so that program objectives are met, individual projects remain within their identified scope and cost, and are delivered within the specified timeframe.

Risk 3: ARRA Program

On February 17, 2009, President Obama signed ARRA. Among its many provisions, ARRA provides California approximately \$2.57 billion for highways, local streets and roads, freight and passenger rail, and port infrastructure projects, and \$1.07 billion for transit projects. In addition, California is eligible to apply for funding under other discretionary programs, including \$8 billion for high speed and intercity rail, \$1.5 billion for significant surface transportation projects, \$1.3 billion for aviation, and \$2.2 billion for Amtrak, new starts, transit, ferries, and other programs. In addition, ARRA requires increased transparent accountability, reporting requirements, and control of the funds. The operational abilities of the programs receiving the large amount of funding and the increased requirements from the ARRA were considered and ranked as a risk to Caltrans.

Caltrans addressed the ARRA program risk by redirecting staff from other programs to establish the Recovery Program Manager, Recovery Act Lead, and Reporting Team Lead. Additional redirection of staff from other divisions to focus on ARRA is currently in process. Since Caltrans was in the process of assessing its internal control infrastructure for Prop 1B, many of the findings and corrective actions that have already been identified will also apply to the ARRA program. Specific audits of programs receiving ARRA

funds are currently in progress. In addition, Caltrans is contracting with SCO for audits of departmental and local agency ARRA funded projects.

Risk 4: Departmental Contracts and Management Oversight

Since a major portion of the \$13 billion annual budget for Caltrans is contracted out and passed through to local agencies, inadequate contract management can pose a great threat to Caltrans' success. To address this risk, Caltrans has provided classroom and online training to project managers; updated the contract managers manual; developed a file documentation checklist to be included with the executed contract; issued a memorandum on the requirement to date stamp invoices upon receipt; and established a Minor B task force group. In addition, A&I performs audits of Caltrans' and local agencies' contractors.

Risk 5: Lack of Committed Transportation Revenue/Funding

California residents consistently list traffic congestion as one of their top concerns in regards to their overall quality of life. Addressing congestion and improving mobility are primary concerns of Caltrans. However, many issues are to be considered when addressing these concerns. The State's population is increasing by over 600,000 each year and is projected to double by the year 2040. Meanwhile, all portions of the multimodal Statewide system are aging and require significant funds for rehabilitation (i.e., State highway, bus fleets, rail cars and tracks, and airport facilities). On the other hand, international goods movement is expected to double and domestic goods movement is expected to increase by 50 percent through California ports within the next decade. The U.S. and the State's economies have been facing down turns and less State and federal transportation funds are available. With vast transportation infrastructure needs facing the State in the future, Caltrans is at risk of not sufficiently meeting the State's mobility needs due to the lack of committed transportation funding.

To address this issue, Caltrans is utilizing public private partnership (P3) agreements to enter into comprehensive development lease agreements. Caltrans has identified sites that will fill important gaps in the California rest area system; demonstrate the ability to meet legal requirements; and accommodate stakeholders' concerns. For example, the Doyle Drive Replacement Project, part of the Golden Gate National Recreation Area, has been considered for using P3 as a means of funding. In addition, the State has tried to sell bonds and partner with local agencies and the federal government to maximize limited State funding to continue with some needed projects.

Risk 6: Departmental Succession Planning

Currently, 65 percent of Caltrans' workforce is 45 years old or older. In preparation for potential gaps in management as the "baby-boomers" retire, Caltrans developed a Management Training Program (MTP) in FY 2004/05. During the past fiscal year, Caltrans continued its successful succession planning programs. Caltrans saw its 1,000th participant in the MTP and continued its other training programs, including the Administrative Skills Certificate Program, Supervisory Training Program, Leadership Training Programs, Parts I and II, and the Executive Development Program.

Risk 7: Expendable and Non-Expendable Fixed Assets

In the last FISMA report dated December 31, 2007, A&I's audit revealed procedural problems and weaknesses that were considered material to accounting and administrative controls, and the safeguarding of public assets. Controls over expendable and non-expendable equipment were insufficient, because physical inventory observation was not performed and property records were not accurate. As a result, there was a material risk that property records did not reflect the physical existence of equipment. The lack of control over equipment described above increases the risk for loss or misappropriation of State assets.

Caltrans has taken various corrective actions to address the issues identified including issuing a departmental Management Memo from the Director requiring corrective actions of the findings; issuing instructions for the Management Memo; approving a three-year inventory plan and identifying related procedures; identifying all property coordinators; updating the Property Control Manual; planning for the procurement of an asset management module for a centralized and uniform department-wide property inventory database; reinforcing that purchase documents be forwarded to property coordinators; completing annual certification forms; keying data from physical inventories; and reconciling property control data to the Property Register maintained by the Division of Accounting (DofA).

Control Weaknesses Identified:**A) Continues to be Out of Compliance with State Inventory Regulations**

While Caltrans has made an effort to address the deficiencies noted in the prior audit reports and achieve compliance with the State Administrative Manual (SAM), improvements are still needed. Our audit found that many of the conditions identified in the prior audit reports still exist and Caltrans continues to be out of compliance with SAM section 8652. Caltrans continues to lack a central property database to store and monitor the inventory database from the districts; the inventory plan for 2009 through 2012 is incomplete; monitoring of the districts' compliance with their inventory plan through the use of annual certifications by district management is insufficient; the purpose and procedures for the required annual certification have not been clarified, documented, formalized, and adequately communicated; and certifications had not been submitted nor prepared for 2009. These conditions resulted in incomplete and inaccurate property records.

Corrective Actions:

Caltrans is currently preparing a corrective action plan to address the issue.

Risk 8: CAL-Card

Significant repeated operational weaknesses involving the CAL-Card program have been identified through Caltrans' independent monitoring processes. To address this issue, Caltrans has formed a CAL-Card review team to ensure effective measures are in place to reconcile and monitor the use of CAL-Cards.

Control Weaknesses Identified:**A) CAL-Card Control Weaknesses**

CAL-Card transactions were not in compliance with the CAL-Card Handbook requirements and provisions of the Memorandum of Understanding (MOU) delegation from the SCO. The significant areas of noncompliance included many incidences of prohibited purchases; purchase requests that were prepared after the purchase; purchase requests lacking justification specifying the purpose or benefit to the State; purchase requests that were missing a receiving signature and date; inconsistent amounts on the purchase request and related invoices; transactions that lacked invoice detail to identify what had been purchased; and missing supporting documentation.

Caltrans runs the risk of unauthorized purchases and losing the CAL-Card program delegation, if cardholders and the responsible divisions and districts are not in compliance with the CAL-Card procedures and the provisions of the MOU with the SCO.

Corrective Actions:

Caltrans' Division of Procurement and Contracts (DPAC) and DofA are working to address the issue. To address the weaknesses, a CAL-Card Review Team (Review Team) was convened in April 2008; and on October 6, 2008, the Director issued a memorandum on the importance of CAL-Card cardholders and approving officials complying with CAL-Card training requirements, created a new responsibility for each division and district, assigned a CAL-Card Liaison, and outlined its roles and responsibilities of providing management support for CAL-Card oversight activities. In August 2009, the Review Team reconvened to follow-up on previous recommendations and to identify additional actions to strengthen CAL-Card program compliance.

DPAC continues training CAL-Card cardholders and approving officials on the importance of complying with the CAL-Card Manual requirements.

Risk 9: Overall Administration of the Home Storage Permit (HSP) Program Needs Improvement

The overall administration and monitoring of the HSP Program needs improvement. Without adequate administration and monitoring, Caltrans runs the risk of employees holding permits for minimal or no work-related need, which increases the risk of waste and abuse of limited State resources. The deficiencies identified in the administration and monitoring of the HSP Program have resulted in inadequate controls over permit issuance and renewal; questionable permit issuance; noncompliance with personal use of State vehicle reporting requirements; and weaknesses over the recording and management of vehicle usage.

Corrective Actions:

Caltrans has formed an HSP Task Force and an HSP Automation project to improve the overall administration and monitoring of the HSP Program. On July 1, 2009, Vehicle HSP guidelines were distributed Statewide by email and posted to the HSP Web site,

along with the implementation of the HSP Automated System to provide Caltrans the tools and direction to improve the administration and monitoring of the HSP program. In addition, a Deputy Directive for Vehicle Home Storage Permits is currently in the review and approval process.

CONCLUSION:

In Caltrans' management's opinion, Caltrans' controls for the above referenced risk areas in effect as of December 31, 2009, are adequate, except for expendable and nonexpendable fixed assets, as detailed above.

**Audits and Investigations
Completed Internal Assignments**

FISMA Follow-up Audit P #	Material Control Weaknesses Identified	Corrective Actions Taken	Corrective Actions To Be Taken	Date of Action / Planned Action
P3010-619 Fixed Assets Cycle	<ul style="list-style-type: none">• The California Department of Transportation (Department) continues to be out of compliance with State inventory regulations.• The Department's property records are incomplete and inaccurate.	A corrective action plan is in progress.		January 2010

Please go to California's transparency website for additional details of the audit, or for a copy of the report at:
<http://www.reportingtransparency.ca.gov/Audits/>

**Audits and Investigations
Completed Internal Assignments**

Proposition 1B Audits P #	Control Weaknesses Identified	Corrective Actions Taken	Corrective Actions To Be Taken	Date of Action / Planned Action
P3000-381 Local Assistance Program	<ul style="list-style-type: none"> Improvement needed in oversight of locally administered projects. Potential conflict of interest. Noncompliance with existing procedures. Existing procedures and processes require update. Unclear policies and procedures for Prop 1B Projects. Information on Prop 1B reporting is not validated. Weaknesses with baseline agreements. 	A corrective action plan is in progress.		January 2010
P3000-382 P3000-386 P3000-389 Project Delivery Division of Construction (Construction) Division of Project Management	<ul style="list-style-type: none"> Construction's Capital Outlay Support costs are not always accurate. Missing Resident Engineer's Daily Reports. Lack of independent review for payment of bid items. Conflicting information in project reports. Required six-month report may not be completed timely. 	A corrective action plan is in progress.		January 2010
P3000-383 Division of Traffic Operations (Traffic Ops) Program Evaluation	<ul style="list-style-type: none"> Improvement needed in oversight of Traffic Light Synchronization Program (TLSP). Encroachment Permit (EP) manual needs to be updated 	Traffic Ops created a work plan that identified which copies of TLSP project applications currently under construction were submitted to Audits and Investigations (A&I) for review and determination of areas/scope where additional scope information is required. TLSP invoice review is consistent with the Division of Local Assistance (DLA)	Review TLSP projects, every three months as they begin construction, to ensure that program objectives are met and guidelines are being followed. Modify TLSP projects, where modifications are required, via a side letter, baseline agreement addendum, or baseline	June 2010

**Audits and Investigations
Completed Internal Assignments**

Proposition 1B Audits P #	Control Weaknesses Identified	Corrective Actions Taken	Corrective Actions To Be Taken	Date of Action / Planned Action
P3000-383 (Continued)	with the Standard Hourly Rate (SHR) and guidelines.	invoice review practices, as TLSP projects are managed by District Local Assistance. As DLA has an ongoing program evaluation with A&I, Traffic Ops is meeting monthly with A&I, to monitor the progress of the DLA evaluation.	<p>agreement amendment for California Transportation Commission approval.</p> <p>Traffic Ops will work with DLA to revise the TLSP invoice review process to correct the findings in the DLA evaluation relating to TLSP. In addition, Traffic Ops will determine the functional requirements for TLSP project closeout and will circulate draft closeout form and procedures for review and comments by stakeholders to be published to local agencies.</p> <p>Traffic Ops is currently working with the Division of Accounting (DofA) to revise the method used to determine the SHR, and establish annual SHR review process to ensure it is updated annually; charge applicants the SHR when application review and permit inspection fees are charged; and create guidelines regarding the revised SHR.</p>	
P3000-384 Division of Rail	<ul style="list-style-type: none"> • Lack of delegated authority to execute contracts. • Lack of centralized database for contracts. • Compliance with conflict of interest directive not documented. 	A corrective action plan is in progress.		January 2010
P3000-388 Division of Transportation Planning (DOTP) Program Evaluation	<ul style="list-style-type: none"> • Inadequate support for requests for reimbursement. • Conflict of interest/economic interest issues. • Lack of training for district regional planners. 	DOTP is working to address the issues identified. Actions taken include five district training sessions to provide an overview of the documents that the Office of Regional and Interagency Planning (ORIP) keeps on file, the quarterly reporting process, step-by-step instructions on the invoicing process, oversight of RTPs, audits and grant management.	Seven additional district training sessions are planned for the remaining calendar year and early 2010. District managers will be responsible for ensuring conflict of interest forms are signed. An email has been drafted and addressed to all district regional planners Statewide reminding them of their primary	December 2010

**Audits and Investigations
Completed Internal Assignments**

Proposition 1B Audits P #	Control Weaknesses Identified	Corrective Actions Taken	Corrective Actions To Be Taken	Date of Action / Planned Action
P3000-388 (Continued)			responsibilities. ORIP plans to work with district regional planning staff to obtain sufficient supporting documentation for a request for reimbursement.	

Please go to California's transparency website for additional details of the audit, or for a copy of the report at:
<http://www.reportingtransparency.ca.gov/Audits/>

**Audits and Investigations
Completed Internal Assignments**

Operational Audits P #	Control Weaknesses Identified	Corrective Actions Taken	Corrective Actions To Be Taken	Date of Action / Planned Action
P3000-374 Home Storage Permit (HSP) Audit	<p><u>Statewide:</u></p> <ul style="list-style-type: none"> • Overall administration of the HSP Program needs improvement. • Inadequate controls over permit issuance and renewal. • HSP Guidelines and communication need strengthening. • Questionable permit issuance. • Noncompliance with Personal Use of State Vehicle reporting requirements. • Recording and management of vehicle usage needs improvement. <p><u>Division of Equipment (DOE) Specific:</u></p> <ul style="list-style-type: none"> • Inaccurate tracking of HSPs. <p><u>Central Region Specific:</u></p> <ul style="list-style-type: none"> • Noncompliance with permits held by survey employees in the Central Region. 	<p>The Department has taken various corrective actions, including formation of an HSP Task Force, to address the identified issues. DOE distributed revised Vehicle HSP Guidelines in July 2009 statewide via email and posted them on the HSP website. Information regarding car tags and reinforcing the importance of inputting vehicle usage has been incorporated into the revised HSP Guidelines. DOE also implemented the HSP automated system in July 2009, to provide tools and direction to improve the administration and monitoring of the HSP program. The HSP automated system institutes an additional level of approval at the District Deputy Director and Division Chief levels to improve the review and oversight of HSPs. A HSP holder will have three levels of review and approval, culminating at the District Director or Deputy Director level. The implemented HSP Guidelines and HSP automated system will help ensure the accurate and timely reporting of Personal Use of State Vehicles and provide management with the tools to track, reconcile, and review the forms within their sphere of responsibility. User manuals for the permit holder, district management and accounting were posted on the HSP Web site. Weekly coordinator meetings via teleconference are held to discuss procedures, requirements, and answer any questions or concerns district coordinators have with the HSP automated system. Additionally, the importance of inputting vehicle usage into the Car tag system is reinforced at the weekly coordinator meetings.</p>	<p>Obtain approval and issue the revised Vehicle Home Storage Permits Deputy Directive; develop online training for HSP holders and the automated system; Central Region HSP Coordinator and staff will complete an internal review of all HSP paperwork for Central Region survey crews.</p>	June 2010
P3000-378 Division of Research and Innovation (DRI) Contract Management	<ul style="list-style-type: none"> • The Research Project Management Database (RPMD) contains incomplete information. • DRI is not disseminating final 	<p>DRI is continuously working to monitor, deliver, and maintain accurate information in the RPMD. Emphasis has been placed on using the data for management reporting. DRI also cooperated with Federal Highway Administration to disseminate over 80 of the 96 applicable federal funded research projects final reports, and developed a process for</p>	<p>DRI will identify a staff person, whose responsibilities will include the review and monitoring of RPMD information. Financial closeout of 80 research projects will be completed. DRI will complete guidelines for the management of administrative task orders</p>	February 2010 and on going

**Audits and Investigations
Completed Internal Assignments**

Operational Audits P #	Control Weaknesses Identified	Corrective Actions Taken	Corrective Actions To Be Taken	Date of Action / Planned Action
P3000-378 (Continued)	<p>reports or closing research projects.</p> <ul style="list-style-type: none"> • Incomplete contract files. • Inconsistent contract management of administrative task orders. • Unauthorized labor changes in an administrative task order. • Contract managers are not monitoring contract payments. • Contract managers are not monitoring equipment purchases. 	<p>reporting the status of closed research projects. Under the new master agreement dated September 25, 2008, individual technical agreements are prepared for research projects with applicable administrative costs replacing the administrative task orders. DRI has provided monthly contract expenditure reports to contract managers.</p> <p>Audits conducted two webinars for contract managers to review the audit findings.</p>	<p>by February 2010. In addition, DRI will work to customize encumbrance and expenditure reports within the new accounting system.</p> <p>Division of Procurement and Contracts (DPAC) will provide contract manager training.</p>	
P3000-380 CAL-Card Audit	<ul style="list-style-type: none"> • Prohibited purchases. • CAL-Card control weaknesses. • Post payment monitoring deficiencies. • Weakness over mandatory CAL-Card training. • Incomplete reporting of Statement of Account (SOA) packages submitted late. 	<p>DPAC and DofA are working to address the issues identified. DPAC reconvened the CAL-Card Review Team in April 2008, and again in August 2009 to follow-up on previous recommendations and identify additional actions to strengthen CAL-Card program compliance. The Director issued a memorandum on the importance of complying with approving officials (AO) and cardholder (CH) training requirements in October 2008. This memorandum also outlined roles and responsibilities for a CAL-Card Liaison to be appointed by each district/division to provide management support of CAL-Card oversight activities. As of June 2008, DPAC suspended all AO and CH accounts not in compliance with training requirements. The CAL-Card Handbook was revised in August 2009 with instructions for CHs to enter the received by date in the automated system, and require supporting documentation. The CAL-Card unit revised the prohibited purchase review process and assigned additional resources.</p>	<p>DPAC continues training CH and AO regarding the importance of documenting the purpose or benefit to the State of all purchase requests, and that SOA packages are due to DofA by the 8th of the month. DPAC continues to suspend and cancel CH accounts which violate program regulations. DPAC will review the adequacy of standard reports after the launch of the new accounting system.</p> <p>DofA is awaiting SCO's response to the proposed revisions to the MOU.</p>	June 2010 and on going

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Operational Audits P #	Control Weaknesses Identified	Corrective Actions Taken	Corrective Actions To Be Taken	Date of Action / Planned Action
P3000-380 (Continued)		DofA reminded staff of review procedures related to signatures, date stamps, keeping copies of all purchase requests and supporting documents submitted. They met with the State Controller's Office (SCO) in August 2009, to discuss proposed revisions to the existing Memorandum of Understanding (MOU) in regards to retaining supporting documents, specifically, a revision to require that all CAL-Card documentation be maintained in a secure central location maintained by the CH's division/district.		
P3000-390 Position Control – Division of Human Resources (DHR) Division of Budgets (Budgets)	<ul style="list-style-type: none"> Develop written desk procedures for the automated year-end process. Ensure monthly reconciliations are consistently being performed. 		<p>DHR is in the process of revising and updating procedures for position management and expects to complete the process by April 30, 2010. DHR will implement a new procedure so the monthly reconciliation is done on a consistent basis. DHR will also explore and implement a method to track and retain files used in the automated reconciliation process.</p> <p>Budgets will prepare written desk procedures for its component in the automated year-end reconciliation process by June 30, 2010. Budgets will include Information Technology's (IT) system administrator to outline and define Budgets' component in the automated process.</p>	June 2010
P3020-068 Information Technology Procurement	<ul style="list-style-type: none"> Lack of written desk procedures in DPAC. Noncompliance with CAL-Card procedures. 	DPAC is working to address the issues. In doing so, they created flowcharts and revised the desk procedure checklist based on a review of the IT Procurement process in July 2008, and documented the methods and procedures for each type of procurement. DPAC also issued a Departmental Management Memo from the Director in October 2008, regarding the use of CAL-Card. DPAC		November 2009

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Operational Audits P #	Control Weaknesses Identified	Corrective Actions Taken	Corrective Actions To Be Taken	Date of Action / Planned Action
P3020-068 (Continued)		<p>completed the IT procedure review and revised desk procedures to be distributed to analysts.</p> <p>District 3 (D3) discussed IT Procurement issues at a Branch Chief meeting; provided mandated CAL-Card training to CHs and AOs and updated the D3's Web site dealing with proper use of CAL-Card. An e-mail was distributed to CAL-Card CHs and AOs making them aware of their responsibilities.</p> <p>Legal provided training to its CHs and AOs and also instructed them to comply with CAL-Card procedures.</p> <p>Design reviewed and discussed proper CAL-Card purchasing and coding procedures with current CHs to ensure that staff are properly trained and understand their roles and responsibilities.</p>		
P4000-373 Right of Way (R/W) Property Management District 4	<ul style="list-style-type: none"> • Management oversight needs improvement. • Deficiencies in tenancy approvals and documentation. • Inappropriate use of rental offsets. • The data in the R/W Property Management (RWPM) system is not reliable. • Improvement needed in the recording and processing of rental receipts in the RWPM system. 	<p>District 4 Management is working to address these issues. The District requires all maintenance requests submitted to the Senior/Supervising R/W Agent, include the estimated cost of work to be performed; requires the review of rental rates/surveys through the Internet to be made part of the tenant file; requires move-in inspections be performed; requires move-out inspections be submitted along with the file to the Senior at the time of vacancy; requires Senior approval to activate and deactivate a tenancy; uses craigslist.com for vacant property listings; inspects vacant properties by a Senior or Supervising R/W Agent at least once a month to ensure that all properties occupied have rental accounts; notified staff of the Department's policy on rental offsets and to continue to adhere to the RWPM policies; embarked on a program to ensure data integrity by requiring District Directors and Right of Way managers to certify the integrity of their data in RWPM; initiated the use of Oracle Discoverer tool to help manage the R/W program;</p>	<p>Continue to monitor the District 4 R/W Property Management staff to ensure full compliance with the audit findings; a Senior or Supervising R/W agent continues to inspect vacant properties at least once a month to ensure that all properties occupied have rental accounts; continue to monitor and cross verify data entry into the RWPM to ensure data integrity; investigate implementing methods of electronic payment to allow tenants to make rent payments via the Internet.</p>	May 2010

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Operational Audits P #	Control Weaknesses Identified	Corrective Actions Taken	Corrective Actions To Be Taken	Date of Action / Planned Action
P4000-373 (Continued)		formed a multifunctional team of representatives from R/W, DofA, and Districts 4 and 7 to address recording and processing rental receipts.		

Please go to California's transparency website for additional details of the audit, or for a copy of the report at:
<http://www.reportingtransparency.ca.gov/Audits/>

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FISMA Follow-up Reviews P #	Control Weaknesses Identified	Corrective Actions Taken	Corrective Actions To Be Taken	Date of Action / Planned Action
P3010-614 FISMA Follow-up Review Part I Division of Equipment	<ul style="list-style-type: none"> Not all contracts executed were included in the monthly contract award report sent to the Department of Fair Employment and Housing (DFEH). Not all contract managers send written start work notification to the contractors. Not all contract managers date stamp invoices. A separate contract file content checklist as a reference for contract managers was under development. The new web-based manager training program has yet to be implemented. 	DPAC addressed these issues by the following actions: staff verified with the Architectural and Engineering (A&E) Branch Chief that all executed A&E contracts are included in the monthly contract award report sent to DFEH; instructed all contract managers that every executed contract should have start work notification and all invoices should be date stamped upon receipt as specified in the Contract Manager Handbook; developed contract manager instructions and online training module; updated the contract manager instruction memorandum with a link to the online training module; incorporated the contract file content list under the Record Management section; posted the online training module to the DPAC intranet site in April 2009, and updated contract manager instructions in July 2009, informing contract managers of the online training.		September 2010
P3010-615 FISMA Follow-up Review – Part II, Information Technology, Division of Information Security and Operational Recovery	<ul style="list-style-type: none"> Improvements needed in the Department's risk management program. Improvements needed in the Department's information security training. Improvements needed in District 6 computer room environment. 	A corrective action plan is in progress.		January 2010

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FISMA Follow-up Reviews P #	Control Weaknesses Identified	Corrective Actions Taken	Corrective Actions To Be Taken	Date of Action / Planned Action
P3010-616 FISMA Follow-up Review – Part IV, Division of Equipment	<ul style="list-style-type: none"> The Department has too many All Valid Vehicle Use and Commercial Vehicle fuel credit cards with no activity. DOE has not completed corrective action nor implemented procedures to ensure that lost/stolen State fuel credit cards are centrally monitored by DOE and reported to Audits. Inadequate separation of duties over the ordering and receiving of State fuel credit cards and the approval of fuel card charges. Voyager Monthly Purchase Report Authorization forms are not reviewed/certified timely, and the individuals responsible for performing the review/certification for all 1,216 cost centers has not been identified. 	DOE has submitted the October monthly lost and/or stolen Voyager fuel credit cards report to A&I.	DOE has developed a plan to address these issues: requiring each district to reduce the number of Valid All Vehicle and Commercial Vehicle Fuel cards (Fuel card) and provide justification of any Fuel cards with no activity; canceling those without justification; continuing to submit monthly lost and/or stolen Fuel card reports to A&I; researching suspicious charges and reporting fraudulent situations to A&I; requiring Fuel cards for Superintendents' assigned vehicles be ordered by DOE and transactions for Superintendents' cards be monitored by their immediate supervisors or designee(s); a single point of contact for each district will be responsible for submitting a summary Voyager monthly report.	January 2010 and on going
P3010-617 FISMA Follow-up Review – Part III, Division of Accounting and Division of Human Resources	<ul style="list-style-type: none"> Non-collection of payroll accounts receivable. Outstanding salary advances are not cleared timely. Insufficient accountability of Office Revolving Fund checks. 		DofA is in the process of preparing a corrective action plan. DHR has developed a plan to address these issues: making enhancements to the Accounts Receivable (AR) database to ensure that it tracks and maintains a history of collection activity taken by DHR; continuing to meet with DofA on a monthly basis to resolve monthly AR and Salary Advance issues; continuing collection efforts on AR; revising the Transaction	December 2010

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FISMA Follow-up Reviews P #	Control Weaknesses Identified	Corrective Actions Taken	Corrective Actions To Be Taken	Date of Action / Planned Action
P3010-617 (Continued)			Procedures Manual to ensure collection activity is initiated within 60 days of issuance; and striving to clear outstanding salary advances on a timely basis.	